



# County of Los Angeles CHIEF EXECUTIVE OFFICE

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WILLIAM T FUJIOKA  
Chief Executive Officer

June 17, 2014

To: Supervisor Don Knabe, Chairman  
Supervisor Gloria Molina  
Supervisor Mark Ridley-Thomas  
Supervisor Zev Yaroslavsky  
Supervisor Michael D. Antonovich

From: William T Fujioka  
Chief Executive Officer

A handwritten signature in black ink, appearing to be "W. T. Fujioka", with a long horizontal stroke extending to the right.

Board of Supervisors  
GLORIA MOLINA  
First District

MARK RIDLEY-THOMAS  
Second District

ZEV YAROSLAVSKY  
Third District

DON KNABE  
Fourth District

MICHAEL D. ANTONOVICH  
Fifth District

## STATE BUDGET - PRELIMINARY ANALYSIS OF THE LEGISLATURE-APPROVED FY 2014-15 STATE BUDGET

On Sunday, June 15, 2014, the Senate and Assembly passed SB 852 (Leno), the main FY 2014-15 State Budget bill, and 16 budget trailer bills. The approved \$156.4 billion State Budget includes \$107.8 billion in expenditures and a \$1.6 billion reserve. The budget package reflects the agreement reached by Governor Brown, Senate President Pro Tem Steinberg and Assembly Speaker Atkins and reaffirms the Governor's stated priorities to pay down the State's debt, stabilize the teachers' pension system and build a reliable Rainy Day Fund.

The key elements of the budget package include: 1) support for jail construction and local public safety initiatives; 2) funding increases for selected health, human services, and education programs; 3) expands of State preschool programs for low-income children; and 4) an agreement with the Administration on a short- and long-term investment plan for cap-and-trade auction revenues.

The Legislature is expected to act on two additional budget trailer bills related to seismic safety and taxes on the sale of fireworks in the next week or two.

The main budget bill and related trailer bills now head to Governor Brown who has until June 30, 2014 to act on these measures. The FY 2014-15 State Budget trailer bills include:

*"To Enrich Lives Through Effective And Caring Service"*

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Bill Number	Subject	Senate Vote	Assembly Vote
SB 852	Main FY 2014-15 Budget Bill	25-11	55-24
SB 853	Transportation	27-10	55-22
SB 854	State and Local Government	31-6	55-23
SB 855	Human Services	28-8	58-12
SB 856	Developmental Services	36-0	76-0
SB 857	Health Omnibus	26-11	55-24
SB 858	Education Finance	26-11	55-23
SB 859	Education	35-2	76-0
SB 860	Higher Education	37-0	63-10
SB 861	Resources	24-12	55-23
SB 862	Cap and Trade	22-12	53-24
SB 865	State Budget Act of 2013: Augmentation	28-8	66-5
SB 869	School Facilities	37-0	77-0
SB 870	Health	26-11	55-24
SB 871	Solar Tax Exemption	28-8	42-20
AB 1468	Public Safety	24-11	53-22
AB 1469	State Teachers' Retirement	37-0	76-0

### **Estimated County Impact**

**Based on a preliminary analysis, the County will not experience a loss of funding or program reductions from any of the provisions in the Legislature-approved State Budget package.**

The Legislature-approved budget includes the following key County-sponsored and supported items:

- **Jail Construction Funding.** The State Budget package includes \$500 million in lease revenue financing to allocate to counties for jail construction funding. The approved budget includes language to prioritize program and treatment space in funded projects and intent language that emphasizes the need for the State to provide a long-term plan on jail construction to the Legislature.

In addition, the State Budget package contains specific **County-sponsored language** that directs the Department of Finance to work with the County of Los Angeles to identify potential State funding options to address mental health and infrastructure needs of the County's jail system, and to report back to the Joint Legislative Budget Committee by January 15, 2015.

- **Martin Luther King, Jr. Community Hospital Funding.** The State Budget package includes County-sponsored trailer bill language to ensure financing for the new Martin Luther King, Jr. Community Hospital, as provided under the agreement with the State, the University of California, and the County contained in **County-sponsored AB 2599 of 2010** (Chapter 267, Statutes of 2010).
- **State Mandate Payments.** The State Budget package includes County-supported language to direct \$100 million to begin repayment of \$900 million in pre-2004 mandate obligations owed to local governments. **It is estimated the County will receive between \$16.8 million and \$25.0 million of the \$100 million payment in FY 2014-15.** The trailer bill also contains trailer bill language which would trigger additional funding to local governments, up to a maximum of \$800 million, for pre-2004 mandate reimbursement in the event State General Fund revenues are higher or exceed the amount approved in the FY 2014-15 State Budget Act. The amount of additional funding would be reflected in the FY 2015-16 May Budget Revision.

### **Additional Major Elements of the Legislative Budget Package**

Key elements of the Legislature-approved State Budget package of significant County interest include:

#### **Health**

**Medi-Cal Expansion - County Indigent Savings.** The Legislature-approved State Budget adopts the Governor's May Revision proposal to redirect \$724.9 million statewide in 1991 Health Realignment funding from counties to the State. This amount reflects potential county indigent health care savings due to the implementation of the Medi-Cal expansion under the Federal Affordable Care Act pursuant to the methodologies contained in AB 85 (Chapter 24, Statutes of 2013).

As previously reported, the FY 2013-14 State Budget Act redirected \$300.0 million statewide in 1991 Health Realignment funding from counties to the State. The amount of funding redirected from Los Angeles County in FY 2013-14 is estimated to be \$88.6 million. **The Department of Health Services (DHS) reports that the approved budget would redirect an estimated \$238.0 million in 1991 Health Realignment funding from the County to the State in FY 2014-15. DHS is working with the Administration to mitigate the impact of this item to the County.**

**It is important to note that redirected 1991 Health Realignment funding is subject to a reconciliation and repayment process based on the County's actual savings and expenditures in 2017 as required by AB 85.**

**Medi-Cal Provider Reimbursement Rates.** The Legislature-approved State Budget adopts the Governor's May Budget Revision to maintain the 10-percent reduction in Medi-Cal provider reimbursement rates enacted in prior budgets to address significant State Budget shortfalls. However, members of the Legislature, from both parties, noted that California has the lowest provider rates in the country and expressed concern that these rates seriously limit access to health care for Medi-Cal beneficiaries.

### **Public Health**

**Black Infant Health Program.** The Legislature-approved State Budget appropriates \$4.0 million for the Black Infant Health Program.

**HIV Prevention Demonstration Projects.** The Legislature-approved State Budget appropriates \$3.0 million for HIV prevention demonstration projects.

**Tuberculosis Control Mandate.** The Legislature-approved State Budget rejects the Governor's January Budget proposal to suspend the tuberculosis control mandate.

**Public Health Licensing and Certification Program.** The Legislature-approved State Budget appropriates \$1.9 million and 18 limited-term positions to investigate complaints against long-term care professionals through the California Department of Public Health's (CDPH) Licensing and Certification Program. Among other provisions, the approved budget requires CDPH to report to the Legislature and post on its website an update on CDPH's contract with the County of Los Angeles and its oversight of this contract by October 2014 and annually thereafter, and to assess the feasibility of establishing professional position classifications, as opposed to Health Facility Evaluator Nurses, to perform licensing and certification surveys and/or complaint investigations.

### **Social Services**

**In-Home Supportive Services Program (IHSS).** The Legislature-approved State Budget includes overtime payments for IHSS providers with specific language to avoid excessive overtime payments. The Governor's Budget proposal prohibited IHSS providers from working overtime to control State costs associated with new U.S. Department of Labor regulations which require domestic workers to receive overtime pay effective January 1, 2015. As previously reported, the **Department of Public Social Services (DPSS) indicates that as long as the current IHSS Maintenance of Effort structure remains in place, there would be no direct fiscal impact to the County as a result of IHSS provider overtime costs.**

The approved budget does not restore the seven percent reduction in IHSS hours; however, the Administration has indicated it plans to introduce legislation to resolve this issue soon. Currently, IHSS consumers are subject to an eight percent reduction in hours pursuant to a 2012 settlement agreement, which is scheduled to be reduced to seven percent on July 1, 2014.

**CalWORKs.** The Legislature-approved State Budget contains various items related to the CalWORKs Program, including:

- A five percent increase to the CalWORKs grant effective April 1, 2015, for a cost of \$47.0 million in State General Funds (SGF) in FY 2014-15 and \$184.0 million SGF in FY 2015-16.
- \$20.0 million SGF in on-going funding for CalWORKs housing supports, for rental assistance, utility payments, and other housing stabilization and relocation services.
- A County-supported proposal by the County Welfare Directors Association (CWDA) to clarify provisions under current law to specify that funds provided for Family Stabilization Services may be used to provide housing and other needed services during any month that a family is participating in this component of the CalWORKs Program. As previously reported, **DPSS indicates this action would allow the County greater flexibility in assisting CalWORKs families accessing Family Stabilization Services to obtain a basic level of stability by ensuring that they have adequate and stable housing.**

**CalFresh Administration Match Waiver.** The Legislature-approved State Budget contains a County-supported proposal by CWDA, the California State Association of Counties, and the Urban Counties Caucus to gradually phase out the CalFresh Program Administration Match Waiver to provide flexibility and fiscal relief to counties. Specifically, counties would be eligible to receive the full allocation for CalFresh administration in FY 2014-15, and the waiver amount would be reduced as specified through the subsequent fiscal years, with the elimination of the waiver by FY 2018-19. As previously reported, in 2010, the State enacted the CalFresh Program Administration Match Waiver which enables counties to receive relief from their share of the cost for program administration once they have met their Maintenance of Effort requirement. As previously reported, **DPSS indicates that phasing out the CalFresh Match Waiver would provide flexibility and fiscal relief to Los Angeles County as the match waiver would be reduced gradually and not abruptly.**

**CalWORKs and CalFresh Program Eligibility.** The Legislature-approved State Budget would, beginning April 1, 2015, authorize benefits under the CalWORKs and CalFresh Programs to be paid to an individual who has been convicted of drug possession, use or distribution of a controlled substance, and remove the prohibition under current law. Under the approved budget, if the person is on probation or parole and is ineligible for aid due to violation of a condition of probation or parole, the individual would be ineligible for CalWORKs or CalFresh Program benefits until no longer in violation. This office is working with DPSS to determine any County impact from this action.

**Services to Support Child Victims of Commercial Sexual Exploitation.** The Legislature-approved State Budget includes a modified County-supported budget proposal by CWDA to provide \$5.0 million in FY 2014-15, and \$14.0 million in FY 2015-16, to enable county child welfare agencies to serve child victims of commercial sexual exploitation. The approved budget would: 1) establish the Commercially Sexually Exploited Children Program, administered by the California Department of Social Services (CDSS), to serve children who have been sexually exploited; 2) require CDSS, in consultation with CWDA, to develop an allocation methodology to distribute program funding for prevention and intervention activities, and services for these children; and 3) require CDSS to contract for training for county children's services workers to identify, intervene, and provide case management services to children, and for training of foster caregivers for the prevention and identification of potential victims, among other provisions. **The Department of Children and Family Services (DCFS) indicates that this funding would help county child welfare agencies serve these child victims through social worker, foster parent and service provider training, and supportive services for victims.**

**Foster Care Payments for Relative Caregivers.** The Legislature-approved State Budget provides \$30.0 million in FY 2015-16, and on-going funds, to raise foster care grant payments for non-Federally eligible foster youth who reside with relative caregivers. The funding for FY 2014-15 is \$15.0 million SGF, matching an effective date of January 1, 2015. This office is working with DCFS to determine any County impact from this action.

**Community Care Licensing.** The Legislature-approved State Budget contains various items relating to Community Care Licensing under CDSS, including an Emergency Client/Resident Contingency Account for the care and relocation of clients and residents, when a facility's license is revoked or temporarily suspended. Specifically, the account must cover costs such as transportation expenses, notifying family members, and providing continuous care and supervision. The approved budget includes a ten percent increase of licensing and application fees, and requires CDSS to

analyze initial application fees and annual fees, at least every five years, to determine whether the appropriate fee amounts are being charged, among other provisions. This office is working with impacted departments to determine any impact to the County.

**Child Care and Development.** The Legislature-approved State Budget provides \$256 million in additional funding statewide to: 1) improve child care standards and quality; 2) increase the number child care slots; and 3) increase provider reimbursement rates. The child care and development package includes:

- 7,500 additional preschool slots;
- 500 additional Alternative Payment Program slots;
- 1,000 additional general child care slots;
- \$69.0 million to increase reimbursement rates for all child care programs;
- \$50.0 million in on-going funds for quality enhancement initiatives;
- \$35.0 million in one-time funds for facility and professional development; and
- repeal of the part-day State Preschool Program family fee.

The approved budget includes intent language to fund an additional 31,500 preschool slots in future years to provide pre-kindergarten opportunities for all low-income four-year-old children.

The Chief Executive Office - Office of Child Care (CEO-OCC) notes that over the last five years approximately 36,000 children and their families across the County lost access to State subsidized child care and development services. The approved budget would increase slots across non-CalWORKs subsidized child care slots by 9,000 statewide, of which CEO-OCC estimates that approximately 2,970 will be allocated in the County.

### **Public Safety**

**Split Sentencing.** The Legislature-approved State Budget includes language outlining the presumption of split sentences for felony offenses under the AB 109 program unless a judge finds that it is not appropriate or in the interests of justice. The period of mandatory supervision granted would be at the court's discretion. The budget also includes language directing the Judicial Council to develop and adopt rules of the court on the use and presumption of split sentencing.

**Trial Court Funding.** The Legislature-approved State Budget includes the Governor's May Revision proposal to provide \$160 million for trial court operations, to cover court health and retiree costs, and to address the decrease in trial court revenues generated by court fees. The approved budget also includes an additional \$40 million for one-time court construction needs.

**Recidivism Reduction Fund.** The Legislature-approved State Budget includes compromise language related to the use and distribution of monies in the Recidivism Reduction Fund, established by SB 105 (Chapter 310, Statutes of 2013). The compromise includes some elements of the Governor's May Revision proposal such as expansion of in-prison drug treatment and mental health programs but also includes \$18 million to reinstate the Mentally Ill Offender Crime Reduction Program grants. In addition, the Legislature-approved Budget includes the establishment of a county-level competitive grant program administered by county boards of supervisors in collaboration with a county's Community Corrections Partnership, intended to fund community-based service providers that offer recidivism and crime reduction services, including, but not limited to, delinquency prevention, homelessness prevention, and reentry services. If approved by the Governor, **the budget would allocate \$1.6 million to Los Angeles County to establish the competitive grant program and provide grants to community service providers over a four year period.** The maximum grant award for any one community-based service provider would be \$100,000.

**Alternative Custody Programs.** The Legislature-approved State Budget expands a voluntary alternative custody program that is now available to the State for female State prison inmates and would authorize a sheriff or a county director of corrections to implement a voluntary alternative custody program for male and female inmates who have been committed to a county jail for a misdemeanor or for a felony under the AB 109 Program. The approved language defines an alternative custody program to include: 1) confinement to a residential home; 2) confinement to a residential drug treatment program; 3) confinement to a transitional care facility that offers appropriate services; and 4) confinement to a mental health clinic or hospital that offers appropriate mental health services. The language would authorize, but not require, the sheriff or the county director of corrections to use electronic monitoring, global positioning system devices, or other supervising devices.

**Cap on Long-Term Jail Sentences.** The Governor's January budget included a proposal to mitigate the impact of inmates sentenced to long terms in county jail under the AB 109 Program and stipulated that for individuals sentenced to 10 years or longer they would serve their sentence in State prison. The Legislature did not adopt the proposal in the final Legislature-approved budget with indications that discussion on this item will continue over the summer. The County will continue to strongly advocate for this critical change.



## **General Government**

**State-County Assessor Partnership Program.** The Legislature-approved State Budget establishes a three-year State-County Assessors' Partnership Pilot Program administered by the California Department of Finance to enhance local property tax assessment efforts. The pilot will include nine county assessor offices represented by a mix of urban, suburban, and rural counties.

**Extension of Property Tax Exemption for Solar Projects.** The Legislature-approved State Budget extends the sunset date for the property tax exemption for commercial and residential solar energy systems to January 1, 2025. The extension of the tax exemption will result in an estimated statewide reduction of \$5 million annually in ad valorem tax revenue.

## **Environment and Natural Resources**

**Cap-and-Trade Expenditure Plan.** In a compromise reached with the Governor, the Legislature-approved State Budget appropriates \$872 million of cap-and-trade revenue in FY 2014-15 and contains statutory language to continuously appropriate 60 percent of ongoing cap-and-trade revenues beginning in FY 2015-16.

The Legislature-approved appropriation for FY 2014-15 includes:

- \$250 million for high-speed rail, \$130 million for affordable housing;
- \$25 million for transit and intercity rail capital program;
- \$25.0 million for low carbon transit operations;
- \$200.0 million for low carbon forms of transportation; and
- \$202 million to other natural resources and energy efficiency programs.

The FY 2014-15 appropriation also includes \$40 million previously allocated through the emergency drought relief funding legislation approved earlier this year (SB 103, Chapter 2, Statutes of 2014).

The Legislature-approved State Budget also approved the following allocation methodology for 60 percent of cap-and-trade revenues in future years, beginning in FY 2015-16:

- 35 percent continuously appropriated for the Transit, Affordable Housing, and Sustainable Communities Program.
- 15 percent will be for transit (including 10 percent for transit and intercity rail capital program and 5 percent for low-carbon transit operations)
- 20 percent for the Affordable Housing and Sustainable Communities Program (with half of this funding dedicated for affordable housing projects that demonstrate a reduction in greenhouse gases).
- 25 percent continuously appropriated for High Speed Rail Authority to continue construction.
- 40 percent continuously appropriated for investments in Low Carbon Transportation, Natural Resources programs, Energy programs, and other programs.

While the cap-and-trade budget trailer bill (SB 862) provides the necessary programmatic framework to allow for funds appropriated in the budget to be expended in a manner consistent with existing State policies, and appropriates future cap-and-trade revenues for FY 2015-16 and beyond, the Legislature indicated that it would introduce clean-up legislation to provide more details about the programs and eligible recipients. It is anticipated that local governments will be eligible for several of the programs listed above, particularly waste diversion, water efficiency and energy efficiency programs.

**Groundwater Management.** The Legislature-approved State Budget appropriates \$2.5 million in State General Fund revenues for implementation of a new groundwater management plan, which is part of the Governor's Five-year California Water Action Plan.

**Drought Response.** The Legislature-approved State Budget appropriates \$18.0 million in one-time State General Fund revenues to address California's drought emergency, including \$2.0 million which will be directed to assist local agencies with emergency water supply drought projects. The remaining funding will be used for responding to critical water shortage and drought impacts, the Drought Emergency Operations Center, and the State's Save Our Water education and outreach campaign.

## **Transportation**

**Repayment of the Highway User Tax Account (HUTA) Loans.** The Legislature-approved State Budget appropriates \$479 million for the early repayment of outstanding HUTA loans, with 70 percent of the funding going to the State and 30 percent going to cities and counties to fund critical transportation infrastructure projects. This represents an increase of \$142 million for cities and counties from the Governor's May Budget Revision. At this time, it is unclear which formula will be used to apportion the funds repaid to cities and counties. The Department of Public Works and the California Association of Counties estimate that Los Angeles County will receive approximately \$24.7 million.

This office will continue to work with affected departments to determine the County impact of the Legislature-approved State Budget and will continue to keep you advised.

WTF:RA  
MR:VE:IGEA:ma

c: All Department Heads  
Legislative Strategist  
Local 721  
Coalition of County Unions  
California Contract Cities Association  
Independent Cities Association  
League of California Cities  
City Managers Associations  
Buddy Program Participants